

*The Management's Discussion and Analysis provides a narrative overview and analysis of the financial activities of the State.*

# Management's Discussion and Analysis

The following is a discussion and analysis of the State of Missouri's (the State's), financial activities for the fiscal year ended June 30, 2002. Readers are encouraged to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal. **All amounts, unless otherwise indicated, are expressed in thousands of dollars.**

## HIGHLIGHTS

Highlights of fiscal year 2002 include:

- continued full funding for the school foundation formula for local schools with significant new resources;
- investments in early childhood initiatives;
- investments in operating costs for new prisons and the fight against illegal drugs;
- start up funding for a prescription drug plan for the elderly;
- an intensive core budget review resulting in \$197 million in core cuts or redirections in fiscal year 2002.

In fiscal year 2002 Missouri invested a total of \$60 million in its capital assets with appropriations for construction and maintenance projects throughout the State. Missouri also invested \$1.625 billion in road and bridge construction and maintenance as part of a long-range plan to improve highways using additional State gasoline tax revenues and matching federal dollars.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This section serves as an introduction to the State's basic financial statements. The State's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

### Government-wide financial statements:

The government-wide financial statements are designed to provide readers with a broad overview of the State's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the State's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of when the cash is received. Thus, revenues and expenses are reported in the statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements report three activities:

*Governmental Activities* are primarily supported by taxes and intergovernmental revenues. They include general government, education, natural and economic resources, transportation and law enforcement, and human services.

*Business-Type Activities* are intended to recover all or a significant portion of their costs through user fees and charges. They include constructing and operating State park facilities, fairgrounds, historical properties and office buildings, hospital services, warehousing, merchandising, publishing maps and documents, and the operation of Unemployment Compensation and the State Lottery.

*Discretely Presented Component Units* are operations for which the State has financial accountability, but are legally separate. They include colleges and universities, the Development Finance Board, Agricultural and Small Business Development Authority, and various highway transportation corporations.

#### **Fund financial statements:**

A *fund* is a group of related accounts that is used to keep track of specific activities or objectives. Some funds are required by law, while others are established internally to maintain control over a particular activity. All of the funds of the State can be divided into three categories: governmental, proprietary, and fiduciary funds.

*Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of current financial resources, as well as on balances that can be converted to cash and the balances left at year-end that are available for future spending. Such information may be useful in evaluating a government's financing requirements in the near future.

Governmental funds include the General Fund and special revenue, capital project, debt service, and permanent funds. Of these, the General Fund, Public Education, Conservation and Environmental Protection, Transportation and Law Enforcement, and the State Road Fund are shown as major funds and presented in separate columns. Data from other governmental funds are combined into a single column for aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

In order for the user to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements, a reconciliation to facilitate this comparison between governmental funds and governmental activities is provided on the page immediately following each governmental fund financial statement.

*Proprietary funds.* The State maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The State uses enterprise funds to account for activities that provide supplies and services to the general public. These include constructing and operating State park facilities, fairgrounds, historical properties and office buildings, hospital services, warehousing, merchandising, publishing maps and documents, and the operation of the State Lottery. Internal service funds report activities that provide supplies and services for the State's other programs and activities. The State uses internal service funds to account for insurance and health-care plans, as well as administrative services for other State agencies, such as fleet management and data processing and telecommunication services. Because these services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the State Lottery and the Unemployment Compensation fund, which are considered major enterprise funds. All internal service funds are combined into a single column in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in the report.

*Fiduciary funds.* Fiduciary funds are used to account for resources held for the benefit of parties outside the state government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are not available to support the State's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* including a budgetary comparison schedule.

The combining statements referred to earlier concerning non-major governmental funds and internal service funds are presented immediately following the required supplementary information.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

The State completed fiscal year 2002 with a balanced budget. Net general revenue collections in fiscal year 2002 were \$6,211 million, 2.8% lower than fiscal year 2001 collections. Net general revenue collections growth was lower than originally estimated.

### STATEMENT OF NET ASSETS

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS:</b>			
Current and Other Assets	\$ 5,089,185	\$ 547,594	\$ 5,636,779
Capital Assets, Net	26,693,780	35,123	26,728,903
<i>Total Assets</i>	31,782,965	582,717	32,365,682
<b>LIABILITIES:</b>			
Long-Term Liabilities Outstanding	2,682,910	82,430	2,765,340
Other Liabilities	1,371,835	150,872	1,522,707
<i>Total Liabilities</i>	4,054,745	233,302	4,288,047
<b>NET ASSETS:</b>			
Invested in Capital Assets, Net of Related Debt	26,458,387	35,095	26,493,482
Restricted	998,145	358,666	1,356,811
Unrestricted	271,688	(44,346)	227,342
<i>Total Net Assets</i>	\$ 27,728,220	\$ 349,415	\$ 28,077,635

### STATEMENT OF ACTIVITIES

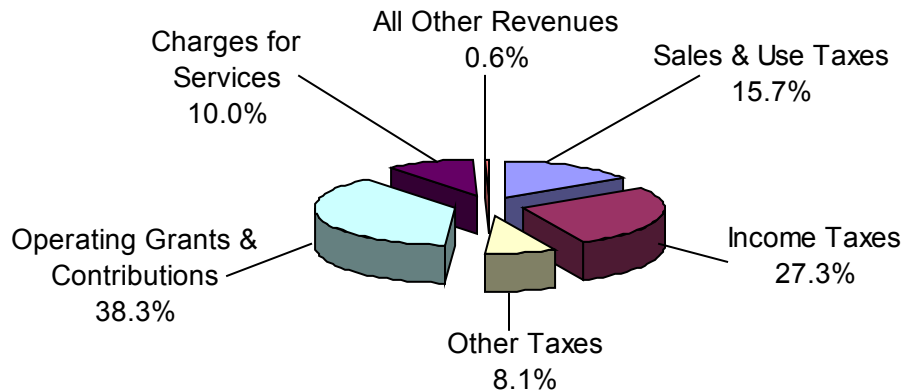
	Governmental Activities	Business-Type Activities	Total
<b>REVENUES:</b>			
Program Revenues:			
Charges for Services	\$ 1,683,603	\$ 638,264	\$ 2,321,867
Operating Grants and Contributions	6,441,518	524,808	6,966,326
Capital Grants and Contributions	7,722	---	7,722
General Revenues:			
Sales and Use Taxes	2,650,692	---	2,650,692
Income Taxes	4,587,867	---	4,587,867
Other Taxes	1,370,431	---	1,370,431
Other Revenues	95,585	24,764	120,349
<i>Total Revenues</i>	16,837,418	1,187,836	18,025,254
<b>EXPENSES:</b>			
General Government	908,592	---	908,592
Education	4,550,990	---	4,550,990
Natural and Economic	574,717	---	574,717
Transportation and Law Enforcement	1,915,697	---	1,915,697
Human Services	8,093,493	---	8,093,493
State Lottery	---	433,287	433,287
Unemployment Compensation	---	642,045	642,045
All Other Expenses	719,892	78,542	798,434
<i>Total Expenses</i>	16,763,381	1,153,874	17,917,255
Increase in Net Assets before Contributions and Transfers	74,037	33,962	107,999
<i>Transfers</i>	(597,350)	(156,012)	(753,362)
Change in Net Assets	(523,313)	(122,050)	(645,363)
<i>Net Assets—July 1, 2001</i>	28,251,533	471,465	28,722,998
<i>Net Assets—June 30, 2002</i>	\$ 27,728,220	\$ 349,415	\$ 28,077,635

## Governmental Activities:

Governmental activities decreased the State's net assets by \$523 million due to a decrease in revenue from taxes and increased spending in education and human services, including Medicaid. Income taxes decreased by about \$41 million, and corporate franchise taxes decreased by \$51 million. The reduction in income tax collections was due to the slowdown of the national economy and a reduction in the capital gains income for individuals.

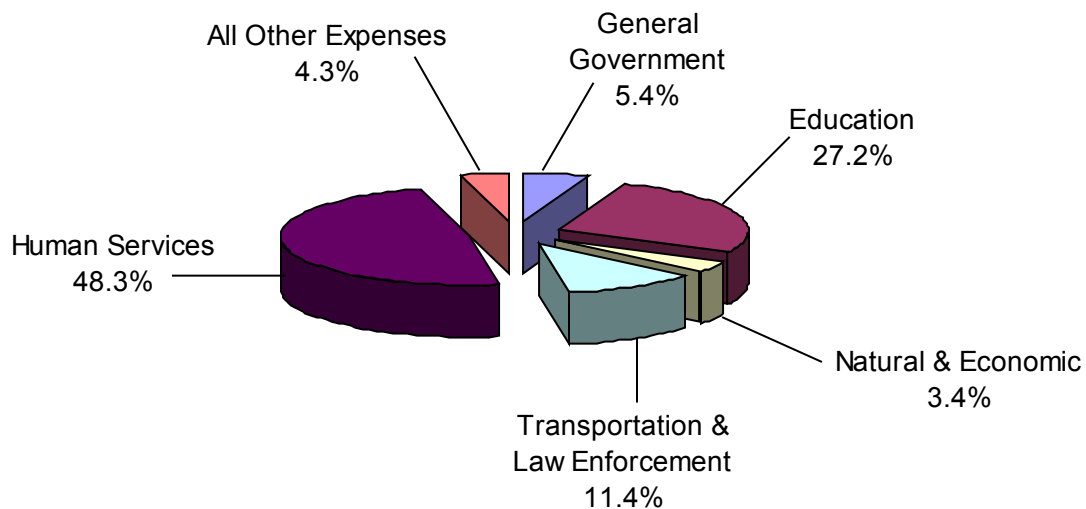
The following chart depicts revenues of the governmental activities for the fiscal year:

### Revenues by Source



The following chart depicts expenses of the governmental activities for the fiscal year:

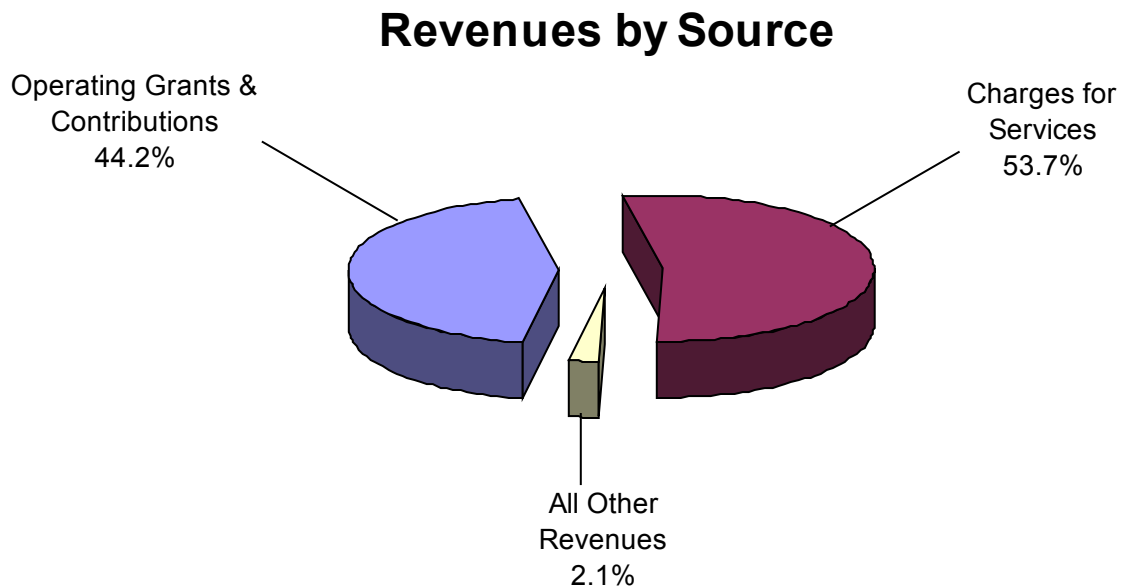
### Expenses by Function



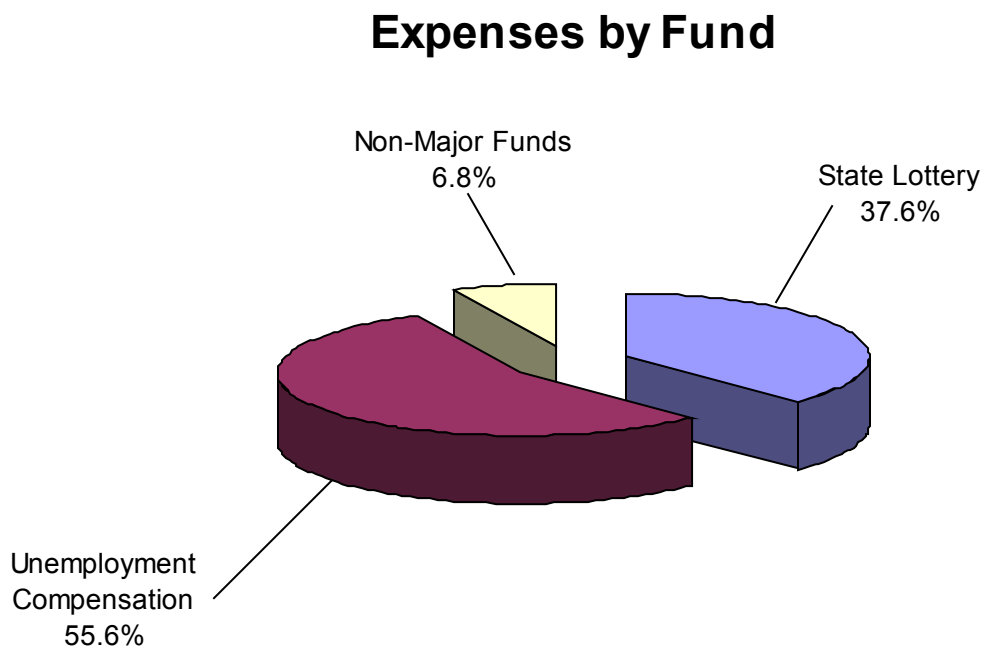
## Business-Type Activities

Net assets of the business-type activities decreased by \$122 million during the fiscal year. Factors contributing to these results include increased spending for unemployment compensation and a decline in revenues from services.

The following chart depicts revenues of the business-type activities for the fiscal year:



The following chart depicts expenses of the business-type activities for the fiscal year:



## FINANCIAL ANALYSIS OF THE STATE'S FUNDS

The State uses fund accounting to ensure and demonstrate compliance with statutory requirements for financial reporting.

As of the end of fiscal year 2002, the State's governmental funds reported combined ending fund balances of \$3.39 billion, an increase of \$203 million over fiscal year 2001. Approximately 67% of this amount constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed: 1) for budget reserve, 2) to pay debt service, 3) for loans receivable, and 4) for a variety of other restricted purposes.

The general fund is the chief operating fund of the State. At the end of fiscal year 2002, unreserved fund balance of the general fund was \$621 million, while total fund balance reached \$1.19 billion. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represent 6% of the total general fund expenditures, while total fund balance represents 12% of that same amount.

The fund balance of the general fund increased by \$203 million during fiscal year 2002. Total revenues for the general fund increased \$541 million. A key factor was an increase in Federal contributions revenue of \$472 million from fiscal year 2001. Of this increase, \$358 million can be attributed to the Title XIX Medicaid portion of the general fund. Total general fund expenditures increased by \$326 million. This is the result of an increase in Human Services expenditures of \$350 million and an increase in Education expenditures of \$67 million, while other expenditure categories decreased. The rate at which expenditures increased was limited through the Governor's use of withholdings as needed to match the revised revenue estimates and maintain a balanced budget.

Other fund balances for governmental funds are as follows:

Fund	Amount
Special Revenue	\$ 1,475,840
Debt Service	110,288
Capital Projects	571,597
Permanent	36,237

## GENERAL FUND BUDGETARY HIGHLIGHTS

The original budget is the first complete appropriated budget that is truly agreed to and finally passed, and signed by the Governor. The final budget includes emergency and supplemental appropriations, transfers, and increases to appropriations.

The difference in the original budget and the final budget for the general fund was an increase of \$450,039. This is summarized as follows:

- ◆ Refunds increased by \$48,341,
- ◆ Medicaid Supply Pool increased by \$93,000,
- ◆ Federal Reimbursement and Nursing Home Federal Reimbursement increased by \$117,075,
- ◆ Distribution Pass-Through increased by \$22,700,
- ◆ SEMA grant increased by \$20,700,
- ◆ Other miscellaneous increases.

Refer to the Notes to RSI, Budgetary Reporting, for more information on budgetary variances.

## CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital Assets.** The State's investment in capital assets for its governmental and business type activities as of June 30, 2002, amounts to \$26,728,903 (net of accumulated depreciation). This investment in capital assets includes construction in progress, infrastructure in progress, land, land improvements, buildings and improvements, equipment, and infrastructure. The total increase in the State's investment in capital assets for the current fiscal year was 1.05%.

	Governmental Activities	Business Activities	Total
Construction in Progress	\$ 637,191	\$ 2,817	\$ 640,008
Infrastructure in Progress	2,287,153	---	2,287,153
Land	2,258,148	10,098	2,268,246
Land Improvements	76,331	3,115	79,446
Buildings and Improvements	1,844,548	16,082	1,860,630
Equipment	1,135,894	41,401	1,177,295
Infrastructure	36,046,230	---	36,046,230
<b>Total</b>	<b>\$ 44,285,495</b>	<b>\$ 73,513</b>	<b>\$ 44,359,008</b>

Additional information on capital assets can be found in *Note 5* of this report.

**Long-term debt.** At the end of fiscal year 2002, the State had total bonded debt outstanding of \$2.8 billion. Of this amount, \$924 million comprises debt backed by the full faith and credit of the government.

	Governmental Activities	Component Units	Total
General Obligation Bonds	\$ 923,795	\$ ---	\$ 923,795
Other Bonds	1,054,415	832,711	1,887,126
<b>Total</b>	<b>\$ 1,978,210</b>	<b>\$ 832,711</b>	<b>\$ 2,810,921</b>

Additional information on long-term debt can be found in *Notes 10 and 11* of this report.

## ECONOMIC OUTLOOK AND NEXT YEAR'S BUDGET

The fiscal year 2003 budget is conservatively based upon the General Revenue Fund's collections of \$6 billion, net of refunds.

As a major manufacturing, financial, and agricultural state, Missouri's economic health is tied closely to that of the nation. The economic outlook is for a slowly growing economy in fiscal year 2003. Missouri's personal income, which directly impacts individual income tax and sales tax, rose at a 3.5% rate during calendar year 2001. Missouri's employment stood at 2,853,193 at the end of June 2002. At the end of June 2002, the state unemployment rate was 5.5% compared to 4.3% at the end of June 2001. The national rate was 5.9% at June 30, 2002.

## REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Office of Administration, Division of Accounting, P.O. Box 809, Jefferson City, MO 65102.